

SAPC-18844
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26 August 1957

MEMORANDUM FOR THE RECORD

SUBJECT: Price Redetermination for APPENDIX I (Items 1 through 9A less 7) under Contract No. FL-3011 with Westinghouse Electric Corporation

25X1 1. On 12 and 13 August 1957, the undersigned met with Messrs. [redacted] of Westinghouse, and [redacted] of Air Force Audit Office to negotiate a final price on items in APPENDIX I. The Contractor had proposed that costs in the amount of \$1,484,809 be accepted for Items 1 through 9A, less Item 7. The Air Force Auditor questioned a total of \$77,209.00 as follows:

a. Conversion or Adjustment Factor - \$39,235

The Contractor increased the number of book labor hours by 30% on incentive factory labor personnel in order to compensate in its estimate for the excess of actual hours over standard or estimated hours. The Contractor could not furnish historical accounting data to develop this 30% charge which would be added to factory incentive labor to compensate for additional time taken in the initial production of small quantities. Neither the Air Force auditor nor the Navy Resident Auditor were satisfied with this method of estimating on CPFF contracts and no agreement could be reached on the 30% factor.

b. General and Administrative Expense - \$16,856

There were no negotiated CPFF rates available to the Air Force auditor. Based on discussions the following estimates of probable rates were determined by the Navy Resident Auditor and the Air Force Auditor:

1955	10.5%
1956	12%
1957	12%

The Contractor's proposed rates for 1956 and estimate for 1957 are 14.3% and 17% respectively. However, on our work the Contractor used 12.6% for work performed in all three periods.

After much discussion, it appeared reasonable to accept the 12.6% rate for the following reasons:

(1) Most of our work was performed in 1956 and the Contractor was willing to reduce his proposal of 14.3% to 12.6% on our

contract. The Resident Navy Auditor (who would normally be conservative) estimated a rate of 12% would be negotiated for that period.

(ii) It appeared that the 1955 (10.5%) and estimated 1957 (17%) rates would compensate for each other.

(iii) While this contract is a price redetermination type contract CPFF rates have been used. Rates used in the former type are normally higher inasmuch as standby charges for less than maximum capacity are acceptable accounts to include in determining the rate.

c. Estimate to Complete (excluding G&A questioned) - \$21,118
The Air Force Auditor's review of the estimate to complete (corrected to reflect 12.6% G&A) resulted in the following:

Estimate to complete as of 7/31/56		\$449,024
Recorded costs as of 3/31/57	\$361,820	
G&A @ 12.6%	<u>\$ 45,589</u>	
		\$407,409
Balance remaining in estimate to complete		<u>\$ 41,615*</u>

*The Contractor's estimate to complete as of 3/31/57 was \$15,840 / 12.6% G&A = \$17,836, leaving an unexplained balance of \$23,779 in the balance noted above. The latter presumably covered spoilage factors and allowance for overruns, but this item is further explained in paragraph 3, hereunder.

2. The Contractor determines his labor estimate to complete as follows:

Labor Hours X 1.3 factor X hour rate	= estimated labor to complete entire work
Less Labor costs to date of proposal to fix price of contract	= <u>actual from books</u>
Balance is estimate to complete	

You will notice that the correction factor of 1.3 is therefore included in the estimate to complete.

3. The key to this negotiation then appeared to revolve around whether the \$41,615 (see 1(c)) was a good estimate to complete from 3/31/57. Each item of the estimate to complete was reviewed with

25X1 Messrs. [] the latter a Westinghouse project engineer. From discussions, it developed that additional work had been performed beyond the estimate to complete with a portion of this unforeseen work resulting in field modification kits. Work was still being performed on the day of the meeting, particularly on the resolution test sets. Billings over the past six months have averaged between \$7,000 and \$14,000 per month. [] advised that costs after being incurred could be as long as four to six weeks before billed. The estimate from 3/31/57 includes \$10,000 for replacement parts which will be furnished; this reduces the estimate to \$31,615. Costs incurred since 3/31/57 could very easily exceed the latter. An average rate of slightly in excess of \$7,000 for the 4½ months period involved would exceed this figure. A total of \$29,269 was billed on this work for the period 1 March 1957 to 30 June 1957 which leaves roughly \$2,000.00 to cover costs that were incurred for a period in excess of six weeks. This is indicative of costs incurred, although it covers overlapping periods. Another factor to consider is that the profit of 7% is low for price redetermination type contracts and it would take in excess of \$14,000 here to increase the profit one additional point.

25X1 4. Based on the foregoing, the undersigned feels that the Contractor's proposed costs of \$1,484,809 are reasonable and should be accepted. It is also recommended that the target profit described by the Contractor as a 7% fixed-fee be paid. This results in the following price for APPENDIX I (Items 1 through 9A less 7).

Costs	\$1,484,809
Profit	103,937 (7%)
	<u>\$1,588,746</u>
Royalty	5,165
Price	<u>\$1,593,911*</u>

*This was the target price for the work, which was established by Amendment No. 7 dated 26 June 1957, at which time in excess of 90% of the work had been completed. At that time a ceiling price was also established for all work except Item 16 of APPENDIX I and Item 1 of APPENDIX II.

25X1 []
Project Contracting Officer

25X1 PCS/DCI: [] :pf (8/26/57)
REVISED - Sept. 6, 1957

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